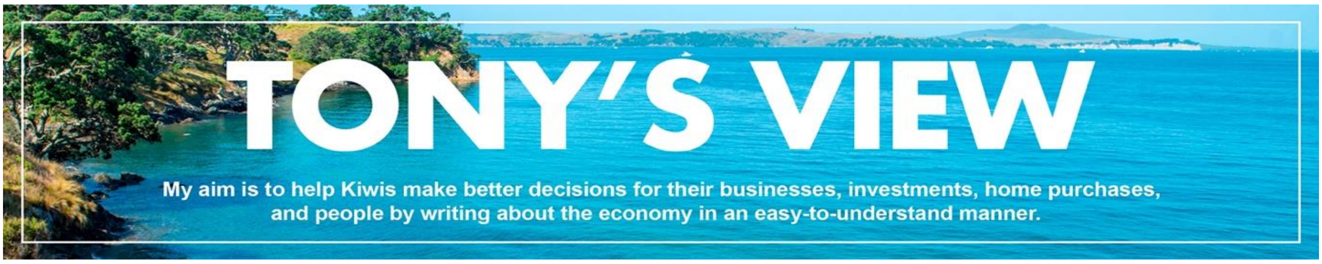

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ISSN: 2703-2825 7 September 2023
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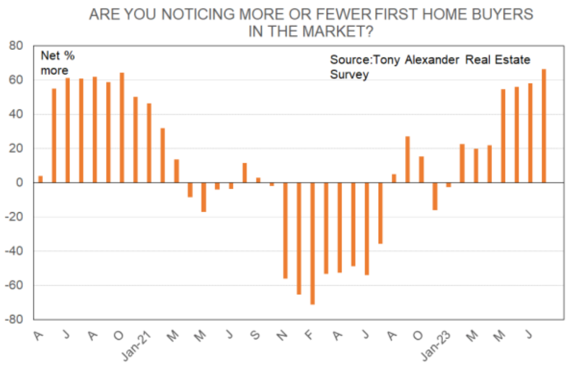
The recovering real estate market

For this week's main article I thought it would be a good idea to look at the key results from my monthly survey of real estate agents. You might want to refer back to this in a year and a half when wondering why discussion about high house prices is right back where it was many times in the past few years regarding affordability.

The bottoming out and now rise in the NZ residential real estate market is due to first home buyers entering the market since early this year. On average over 2022 a net 32% of agents said that they were seeing fewer young home buyers in the market. This improved to a net 22% seeing more in February and now the number is a record net 66%. More and more young buyers are trying to make a purchase.



Why have they entered the market in numbers? As I have been highlighting for some months now, young people are acting for a number of reasons.

Deposits

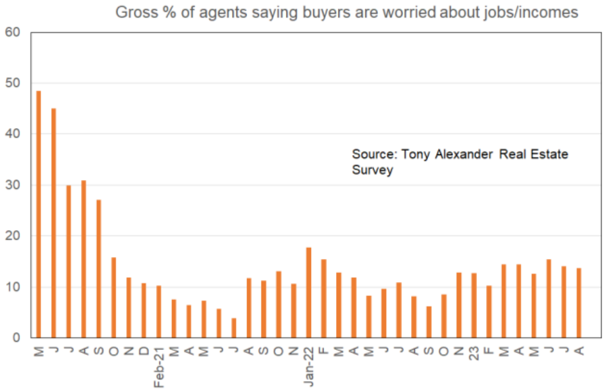
While holding back from the market since early in 2021 they have built larger deposits.

House prices

Average house prices have fallen substantially, especially in Auckland and Wellington.

Jobs

They have jobs and feel a good degree of job security. We can see this from the still very low proportion of agents saying that buyers are worried about their incomes.



Wages rising

They have enjoyed strong wages growth probably above average.

Rents rising

Rents have risen and continue to rise.

Migration boom

They are hearing stories of rents being pushed higher by record net migration inflows into the country.

Newbuild aversion

They have a temporary aversion to ordering a newbuild to the same extent they did before because of reports of some unfortunate people losing their deposits and projects taking longer and costing more than expected.

Credit easing

Credit criteria for loans have been eased recently in terms of easier LVR and CCCFA rules.

Peak mortgage rates

There is a belief that interest rates are at their peak levels.

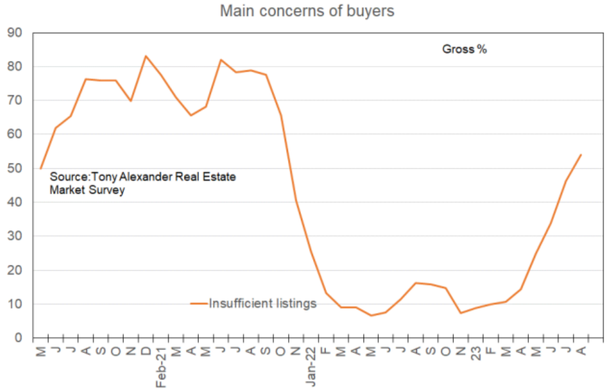
Beat investors

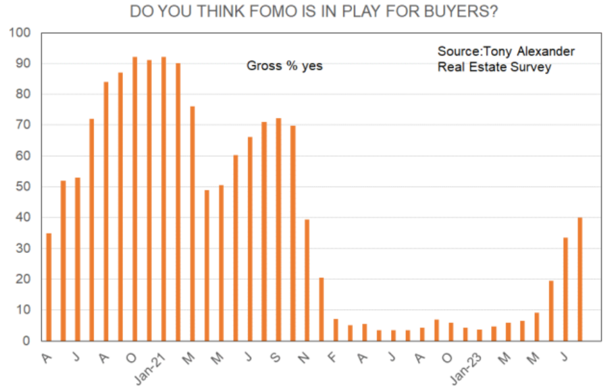
They are buying to get in before investors return over time, especially if National win the general election.

Listings availability

The number of properties listed for sale is well above 2021 record lows. But there are growing concerns that listings availability is deteriorating.

This latter factor is undergoing a change which I capture when I ask agents about the things which buyers are concerned about. On average over 2022 only 12% of agents said that buyers were worried about the availability of listings. That proportion has just risen to 54% as seen here.



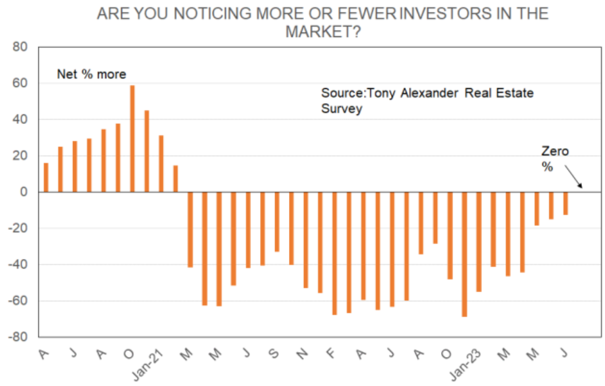


Lack of listings was a big factor explaining the strange surge in house prices in the second half of 2021 in spite of rising interest rates, net migration flows, restoration and tightening of LVRs, and tax rule changes for investors. It seems reasonable to expect that as listing worries grow the price movements which have so far occurred will become more magnified – especially through 2024.

FOMO rebounded in the second half of 2021 before the credit crunch from strong LVR and CCCFA changes crushed such sentiment. After averaging just 6% through 2022 the proportion of agents now saying buyers are displaying fear of missing out has risen to 40%. This is still well below levels of the 2020-21 frenzy so one cannot claim that market conditions currently are frenzied. But the direction of movement is clear.

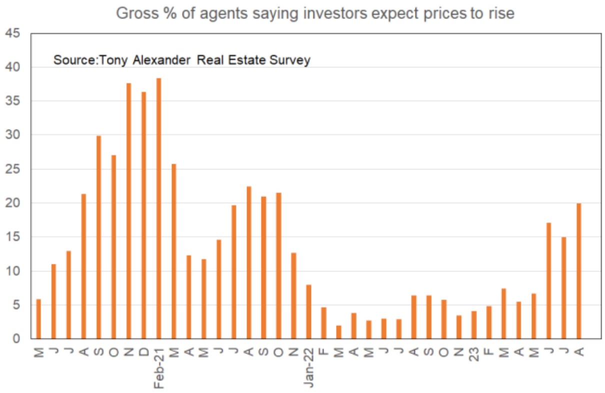
What can I say about investors from my survey of real estate agents? There is nothing to show that they are actively buying again. But they have stopped withdrawing from the market and are starting to sniff the tyres.

This month a net 0% of agents said that they are seeing more investors.



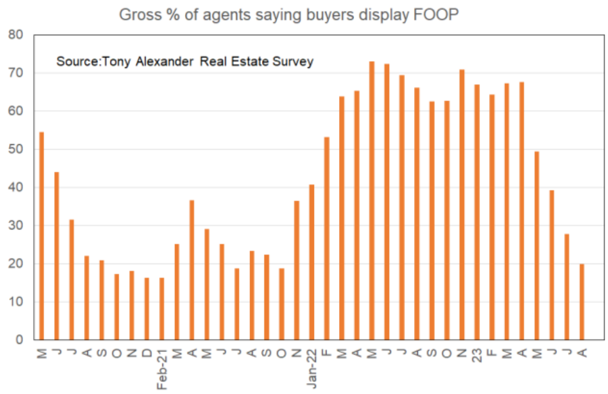
This is the least weak result in over two years.

An increasing proportion of agents say that investors are motivated by expectations that house prices will rise.

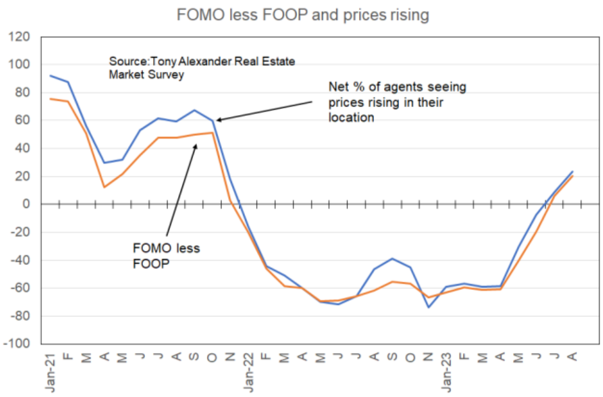


I don't ask specific things like whether or not investors are waiting for the election outcome. But comments from agents indicate some are and maybe some are willing to take a punt on a change in government.

Finally, let me finish by noting again the very close relationship between FOMO, FOOP (fear of over-paying) and agent perceptions of prices rising. Above I included a graph showing FOMO is rising. Here is one showing fewer agents noting that buyers are worried about prices falling after they make a purchase – FOOP.



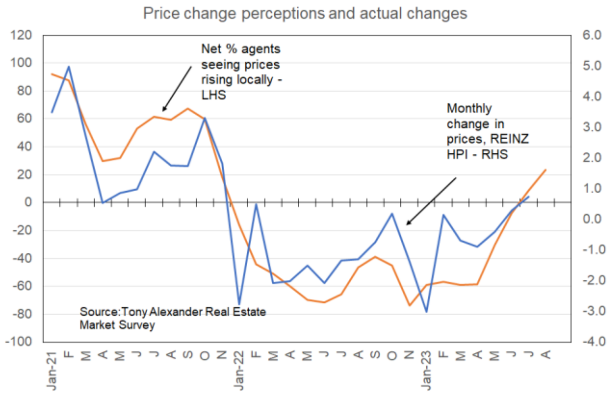
If we subtract FOOP from FOMO we get 20 less 40 = a reading of 20 shown as the far right observation in the orange line for the next graph.



The blue line measures the net proportion of agents feeling that prices are rising in their location. The correlation between these two measures is very close.

How do agent price change perceptions line up with actual monthly changes in house prices as measured by the REINZ House Price Index? In the following graph the orange line shows the net proportion of agents feeling prices are rising – measured on the left vertical axis. The blue line shows the monthly change in prices – measured on the right axis.

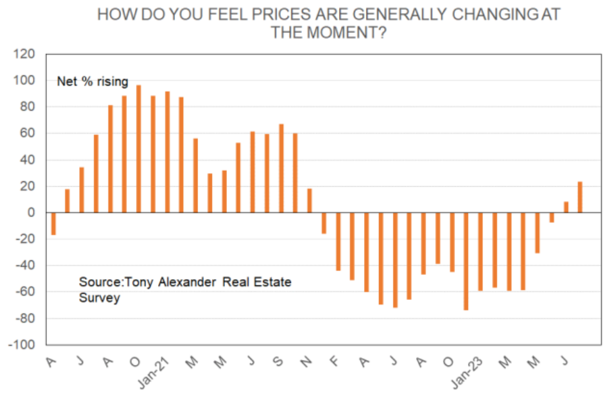
The correlation looks pretty good to me and what it says is this. If you expect FOMO to rise and FOOP to fall, you have to expect house price inflation to accelerate.



Now that the real estate market is rising the incidence of agents complaining about negative media is falling away. Instead, we have entered the early stages of the cycle when people (not usually agents) complain that the media are talking the market up.

Related to that, now that my survey results clearly show market strength - and have done so for some months ahead of the more established data sources of prices and sales showing it – a traditional criticism has reappeared. This is that agents have an upward bias to their comments and this makes the results in my survey look rosier than they really are.

Probably – but it doesn't matter. It is the change in readings which is important and that is why surveys which focus on a single point in time are all but worthless. Let's say we could estimate a 10 point bias in results such as the proportion of agents saying prices are rising in their location. If we applied this to the next graph showing the actual outcomes for this question in my survey all that would happen is the orange line would shift down by ten on the left side axis. But the change in readings would be the same. The graph would still be rising now.



So, by all means assume that agents are biased in their comments. But unless you can show that your assumed bias changes from month to month, the relevance of the results is unaffected. Such is the beauty of statistical analysis beyond what they might have taught you in fourth form – year ten.

In case you missed it

My monthly survey of real estate agents has shown the following.

- More and more people are showing up at auctions and open homes.
- There has been a firm lift in the number of potential vendors seeking property appraisals.
- As many agents report they are seeing more investors as fewer.

- Buyer concerns are growing about the availability of listings while worries about prices falling have firmly declined.

[Tony-Alexander-Real-Estate-Market-Survey-September-2023.pdf (tonyalexander.nz)]

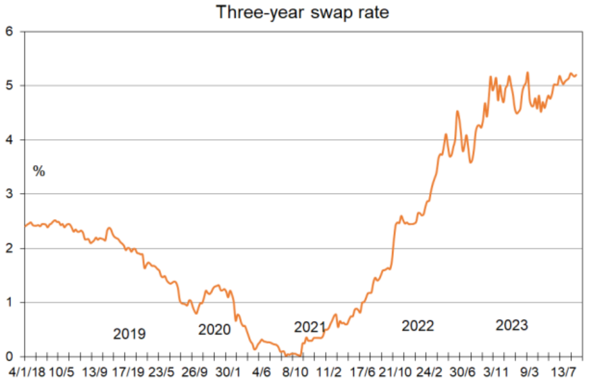
If I were a borrower, what would I do?

There have been only small changes in wholesale interest rates this week. In Australia the cash rate was left unchanged for the third month in a row but there still remains a chance that it will be raised one last time from the current 4.1%.

In the United States the week has brought some weaker than expected data on the labour market but comments from the Federal Reserve Board Chairman that more tightening may be needed. Also, last night some numbers on the services sector were stronger than expected and that has caused US rates overall to edge up slightly this week.

Locally, none of the data releases have greatly added to existing views on where inflation and interest rates may be headed.

At the end of it all the cost to banks in NZ of borrowing money at a one year fixed rate to then lend fixed for one year has stayed unchanged at 5.72%. The three year rate has edged up slightly to 5.2% from 5.17%.



If I were borrowing currently I'd favour some mix of 12 and 18 month fixed rates.

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.